



# The Real Estate ANALYST

FEBRUARY 27  
1941

Roy Wenzlick  
Editor

A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends...Constantly measuring and reporting the basic economic factors responsible for changes in trends and values.....Current Studies..... Surveys.....Forecasts

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VOLUME X

REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

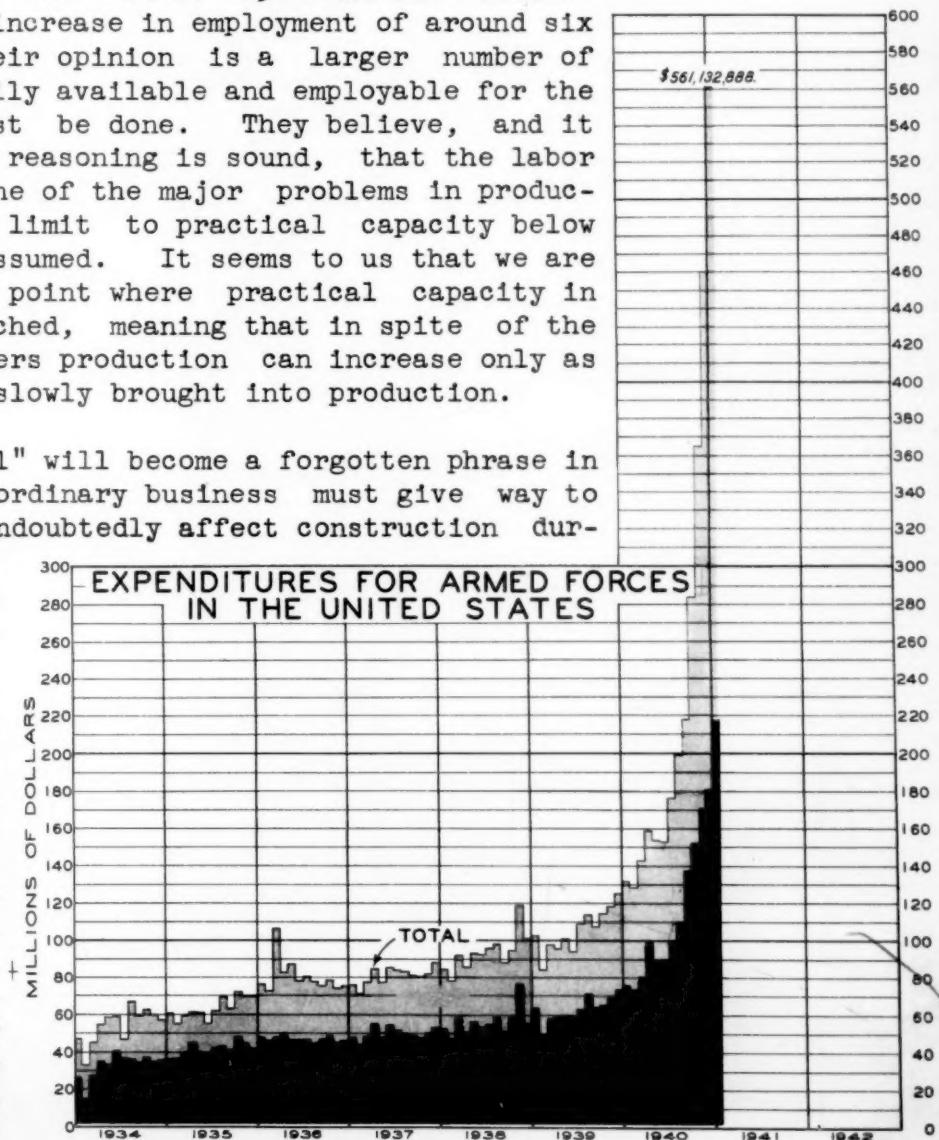
## DEFENSE BOTTLENECKS ARE DEVELOPING

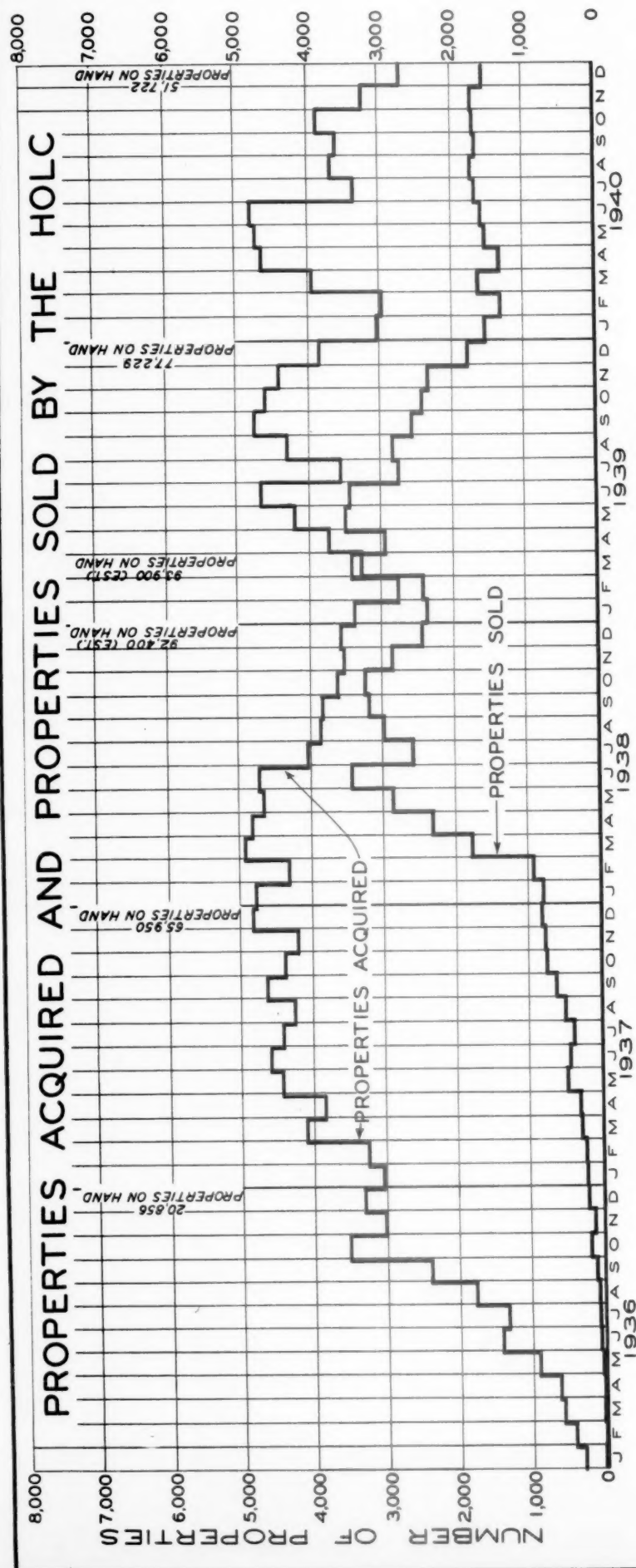
THE chart on this page shows that we have now passed the point where we are spending for defense alone more than half a billion dollars a month. This line will continue to rise during the balance of the year as our defense program gets into full swing.

We are reaching the point, however, where shortages of various types are developing and where priorities must be granted if the defense program is to go ahead. Skilled labor of certain types is not only entirely employed but working on an overtime basis. The Twentieth Century Fund has just issued a forecast that between the fall of 1940 and the fall of 1942 there will be an increase in employment of around six million. This in their opinion is a larger number of workers than are actually available and employable for the type of work which must be done. They believe, and it seems to us that their reasoning is sound, that the labor problem will become one of the major problems in production and will place a limit to practical capacity below the limits generally assumed. It seems to us that we are fast approaching the point where practical capacity in production will be reached, meaning that in spite of the rapidly increasing orders production can increase only as new plant capacity is slowly brought into production.

"Business as usual" will become a forgotten phrase in the United States as ordinary business must give way to defense. This will undoubtedly affect construction during the latter part of 1941 and succeeding years. As it affects construction and replacement costs, it will later affect all real estate values. In other words, we are now in a vicious inflationary cycle, as vicious and as hard to break as the deflationary cycle of 1929-1932. It could probably be controlled by government, but in our opinion it will not be

(Continued on page 58)





**H**OLC history can be divided into three phases. In the first of these, the major activity was the lending of money to distress owners of real estate. This period lasted until June 12, 1936, during which time \$3,093,450,641 was loaned to 1,017,827 home owners.

The second phase started in the latter part of 1935, when the first pieces of real estate were acquired on delinquent mortgages. While this period is still continuing, it reached its peak in March 1938, followed by a steady drop in the rate of acquisition. Up to January 1941, 160,900 properties had been acquired - a rather small percentage, considering that all loans were made under distress conditions.

The third or liquidating phase started really getting under way in March 1938, when sales of real estate began to exceed a thousand parcels a month. Through December 1940 125,529 parcels have been sold. These parcels sold for from 74% to 80% of capital value to the HOLC.

The chart above shows these last two phases. It will be noticed that until April 1939, more properties were still being acquired each month than were being sold, resulting in a constantly increasing overhang on the market. Since then, however, sales have exceeded acquisitions, resulting in a sizable reduction in the number of properties owned by the HOLC.

## RESIDENTIAL BUILDING COSTS IN 64 CITIES

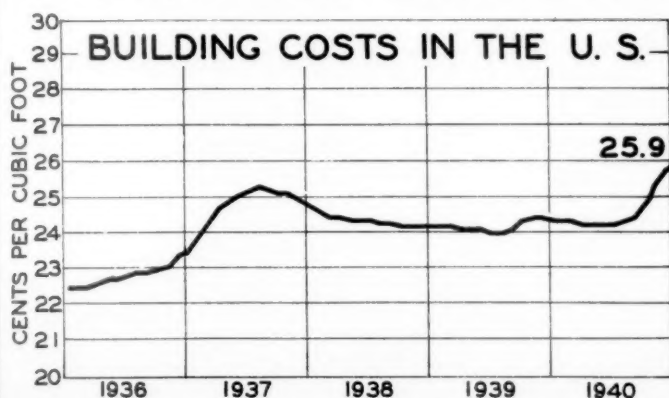
**R**EAL Estate Analysts, Inc., went definitely on record at the beginning of the present war, that construction costs would move sideways at first for a period of probably six months to a year and then would start sharply upward. This forecast appeared time and time again in our own reports, in a booklet, "Should We Build Our Home Now?", by Roy Wenzlick and in articles written by him for leading magazines. The accuracy of this forecast on construction is shown by a glance at the long spread on pages 50 to 53, where we chart construction costs from January 1936 to January 1941 for 64 cities, compared in each case with the average (median) of all cities. The rise started shortly after the middle of 1940 and has been quite pronounced since then. In some cities the rise since last June has exceeded 15% and in one city it exceeded 17%. These advances are the more significant in view of the fact that they have occurred in a period when the federal government has exerted every possible pressure to hold down costs. The Attorney General has issued indictment after indictment against building material manufacturers and labor organizations; Leon Henderson of the Defense Commission has cajoled and threatened.

The figures we have charted on this spread are based on costs compiled by the Federal Home Loan Bank Board. A house that fits the specifications used in each city is pictured on the spread. The same house was described in detail in the Real Estate Analyst of April 26, 1940.

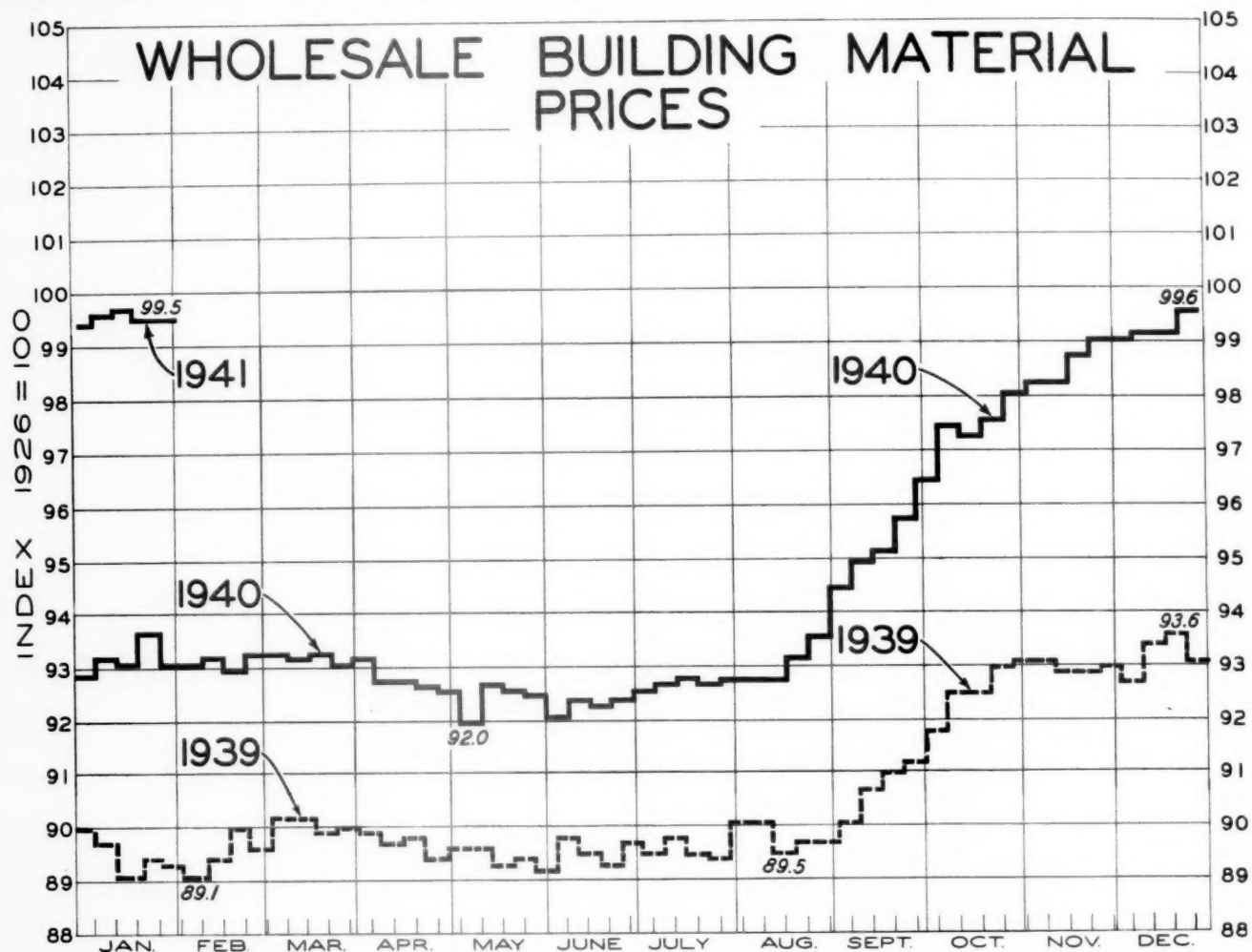
This design is simple and efficient. The interior arrangement can be considered fair, and the construction is average in quality. The plans and specifications call for concrete foundations, concrete basement and garage floors; concrete slabs for front and rear stoops; frame exterior walls with 3/4" x 10" redwood siding, with stucco gable ends; three coat plaster walls; oak flooring; pine B & B trim; 1 3/8" six panel #1 pine doors; tile wainscote and floors in bathroom and lavatory; two kitchen cabinets; 266 lbs. asphalt shingle roof with copper gutters and downspouts; modern bathroom fixtures; hot water heat; modern electrical installation; insulation in exterior walls and second floor ceiling.

It should be pointed out that the house pictured would probably not be of an acceptable type for actual construction in all of the cities listed. The specifications have been held the same, however, in all cities, as it is the only way in which a comparison can be made between the various communities. This is true even to the inclusion of a furnace in the building in Tampa.

The standard six-room house, which Real Estate Analysts, Inc., re-figures each month, and on which figures are available from 1913 to the present for each group of labor, material and over-head is very similar to the house fig-

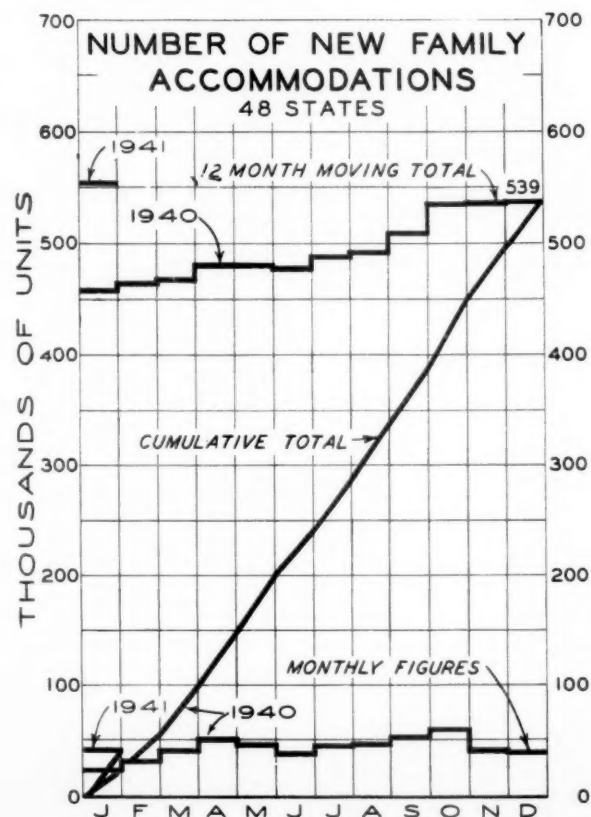


ured by the Home Loan Bank Board. Our figures and theirs, however, have not been changing at the same rate. The figures charted here for St. Louis are new revised figures, varying in some months by more than \$500 from the figures formerly published. We are re-checking our figures, but our re-check has proceeded far enough so that we know our figures cannot be reconciled with their new revision. A detailed study will follow in the next Analyst.



**T**HE chart above shows the fluctuations in price for the last 25 months of wholesale building materials. These are charted on a weekly basis from the figures of the Bureau of Labor Statistics in Washington. The rapid rise from August on in 1940 is in accordance with the forecasts of The Real Estate Analysts, Inc.

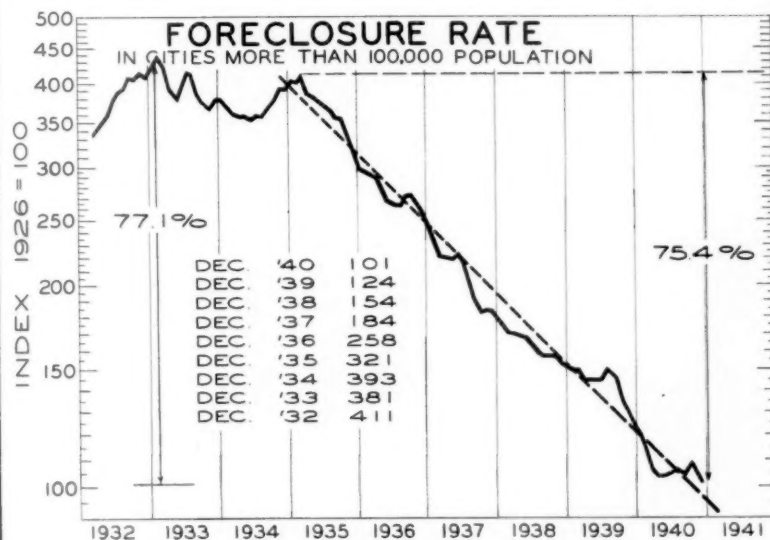
The chart to the right shows the number of new family accommodations built in the 48 states during 1939 and 1940.



DWELLING UNITS CONSTRUCTED IN 48 STATES  
(in thousands of units)

	Monthly			Cumulative			12 Month Moving Total		
	1939	1940	1941	1939	1940	1941	1939	1940	1941
January	30.1	25.7	43.0*	30.1	25.7	43.0*	345	461	556*
February	29.2	33.7		59.3	59.4		359	465	
March	39.4	42.0		98.7	101.4		375	468	
April	36.6	51.1		135.3	152.5		386	482	
May	49.6	49.1		184.9	201.6		409	482	
June	40.6	38.8		225.5	240.4		422	480	
July	38.1	48.9		263.6	289.3		423	491	
August	46.2	49.4		309.8	338.7		435	494	
September	35.7	53.0		345.5	391.7		435	511	
October	36.1	62.4		381.6	454.1		439	537	
November	42.5	42.7		424.1	496.8		450	538	
December	40.9	41.9		465.0	538.7		465	539	

\*Estimated



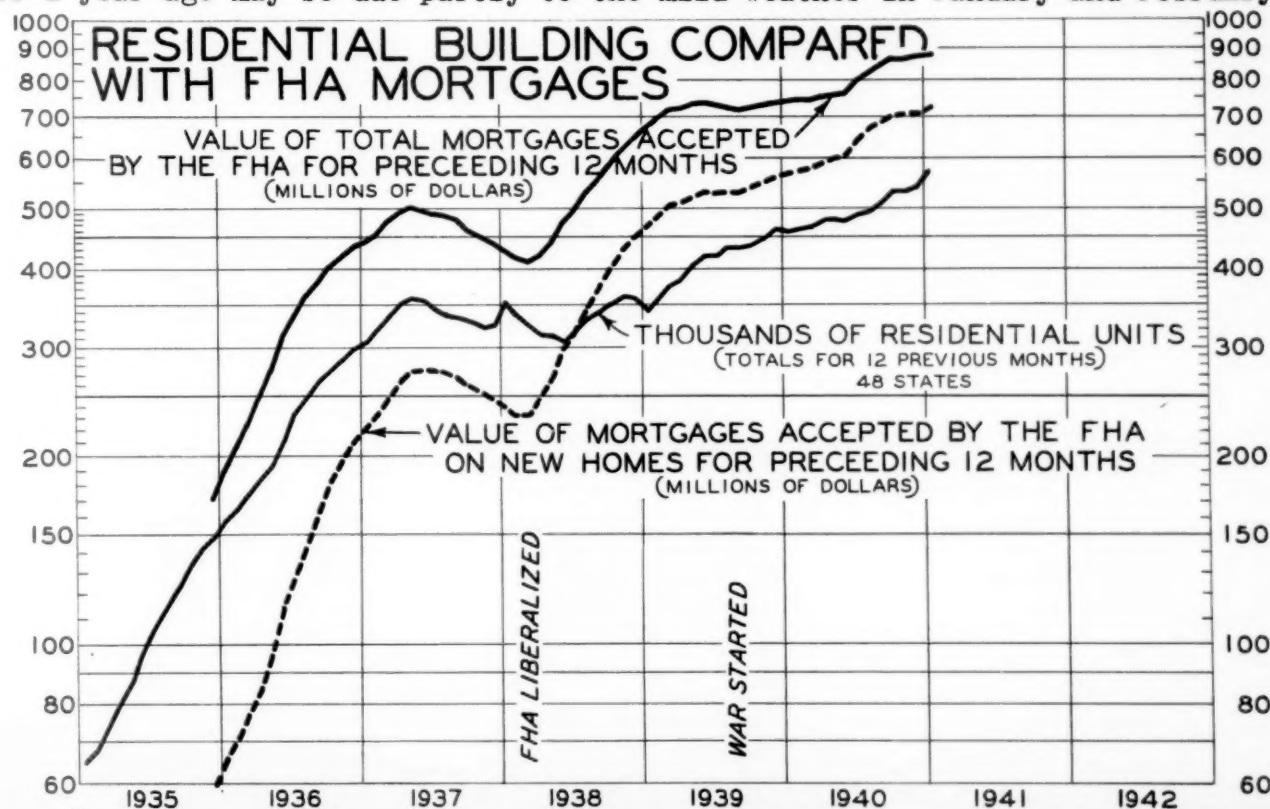
**U**RBAN foreclosures for December 1940, the last month available, on a seasonally adjusted basis dropped to a new low - 77.1% below the all-time peak of 1933.

Foreclosures are now at the 1926 level. We think that they will drop further, however, as the year progresses.

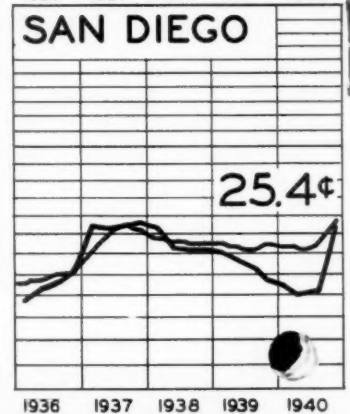
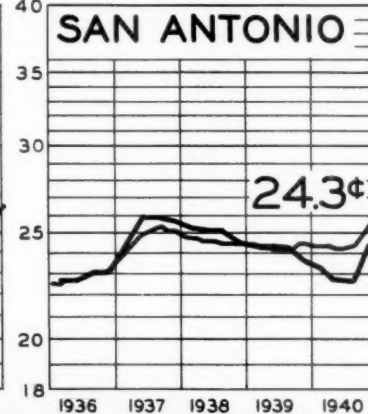
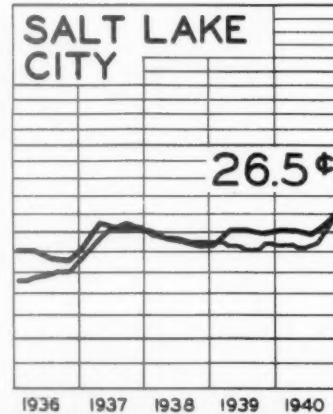
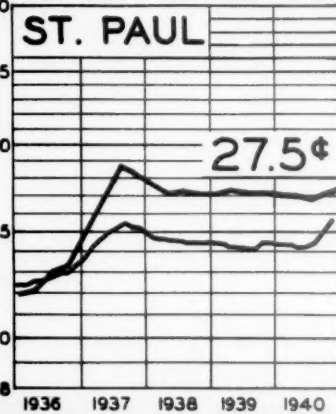
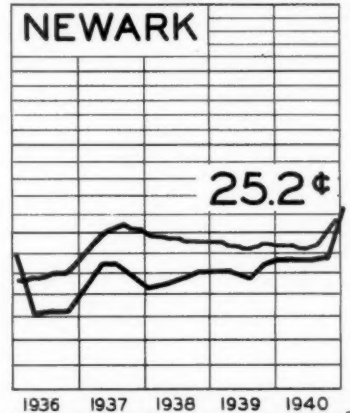
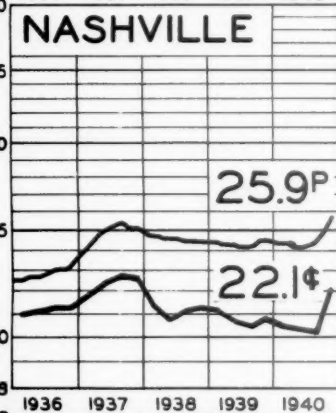
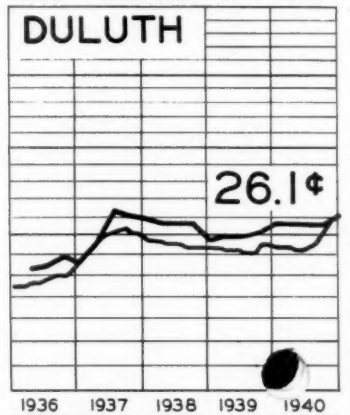
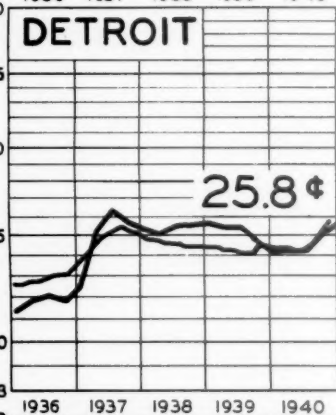
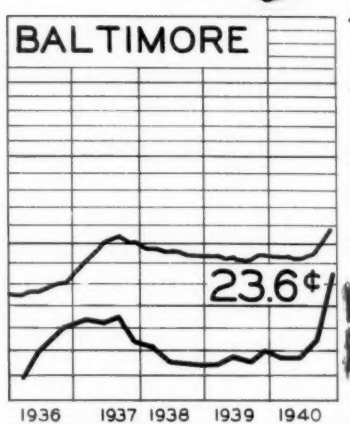
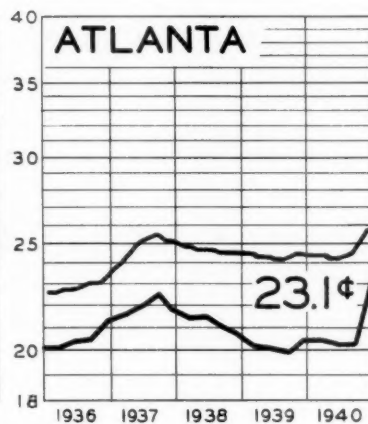
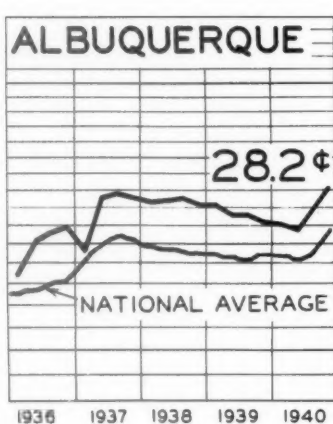
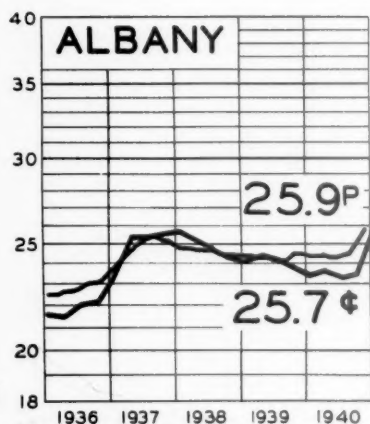
This chart is computed from basic figures that are gathered by the Home Owners' Loan Corporation from all cities, of more than 100,000 population in the United States.

**T**HE chart below shows the volume of new building compared with the dollar volume of mortgages accepted by the FHA. The number of residential units is shown by the black line on the chart, the value of all mortgages accepted by the FHA by the solid green line, and FHA mortgages on new homes by the broken line. All lines on this chart are moving annual totals; this has been done so that trends will be more apparent than they would be on a line with sharp monthly fluctuations.

FHA financing on new homes is not yet available for the past two months; the value of total mortgages accepted however is still increasing, as is the volume of residential building. In fact, residential building has been increasing so rapidly during January and the first part of February that it brings into doubt the forecast which we have made for 1941. The great gain over a year ago may be due partly to the mild weather in January and February.

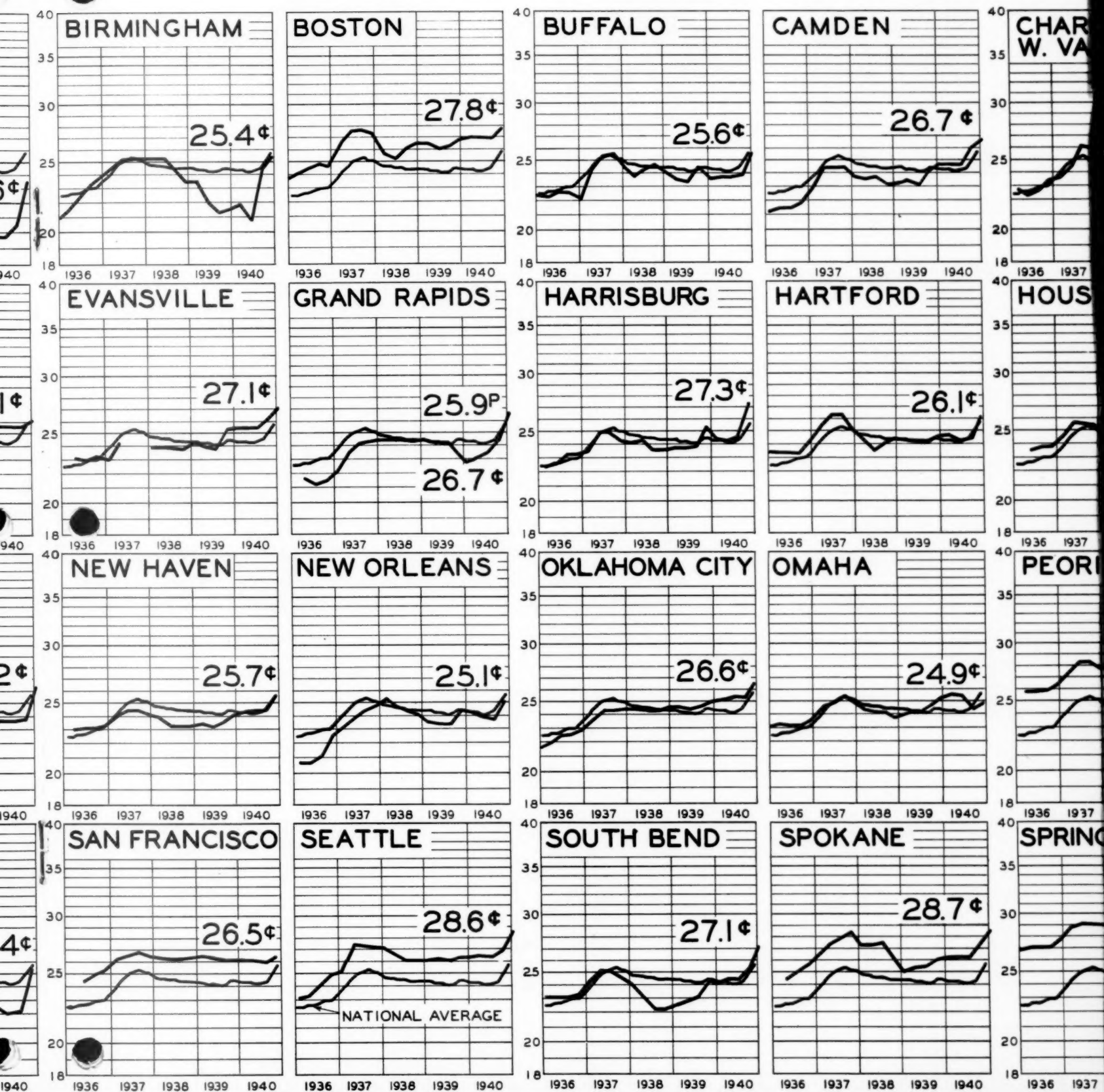


COST PER CUBIC FOOT IN CENTS



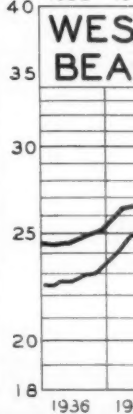
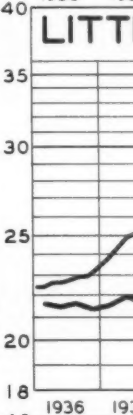
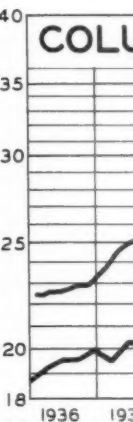
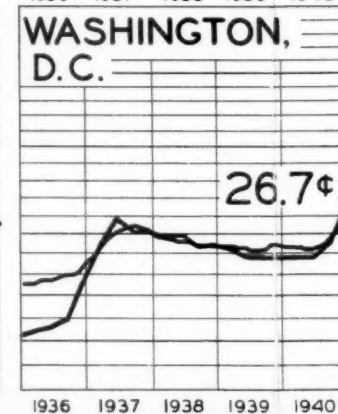
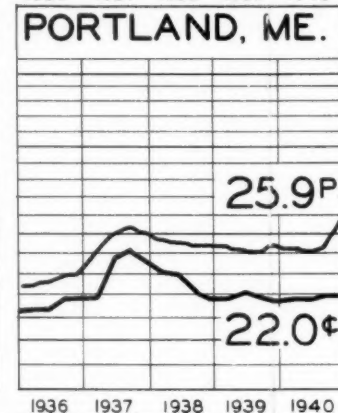
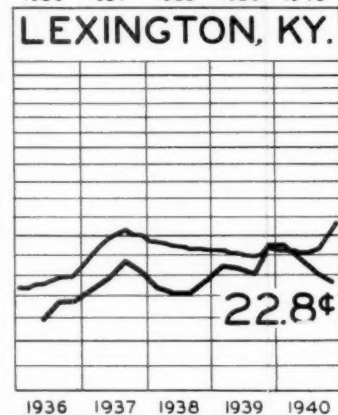
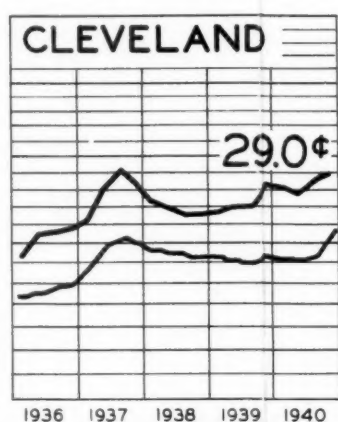
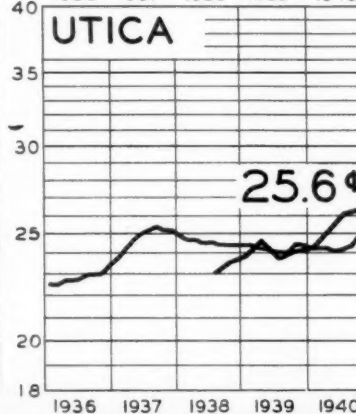
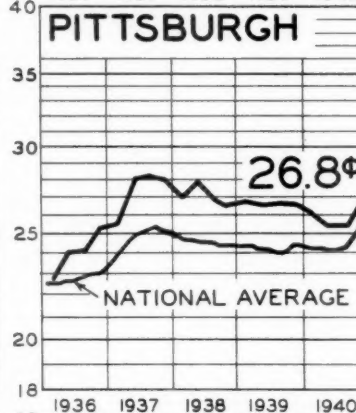
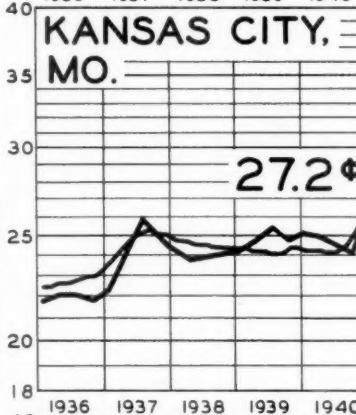
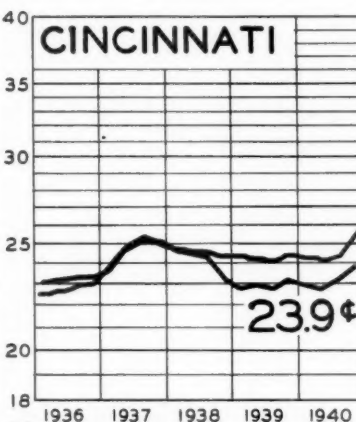
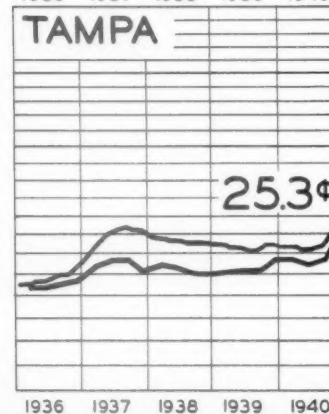
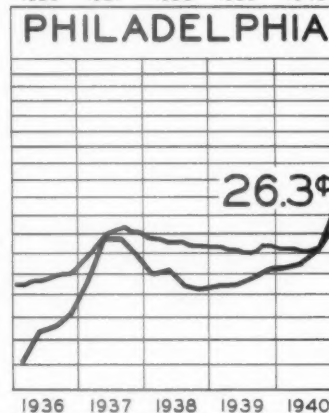
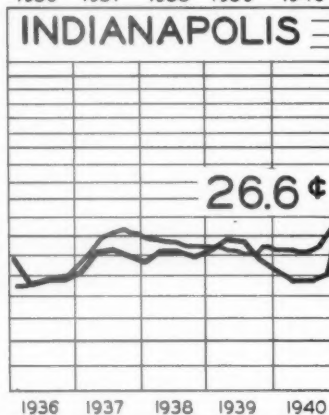
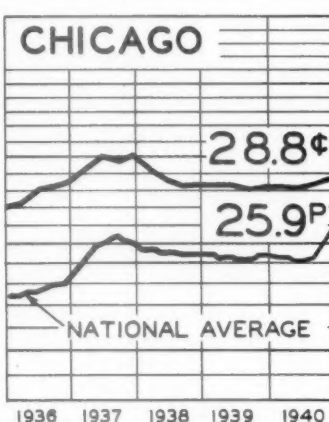
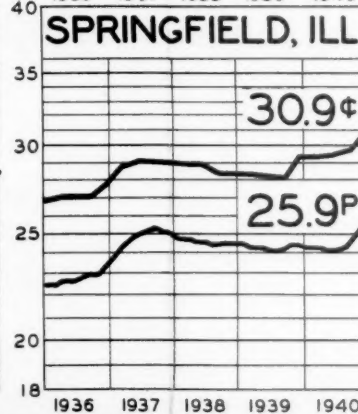
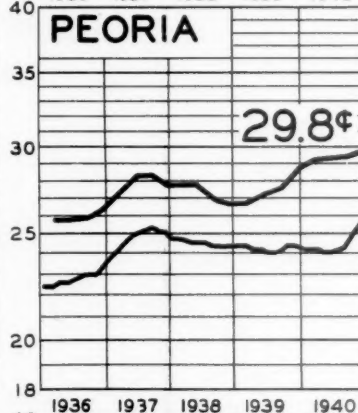
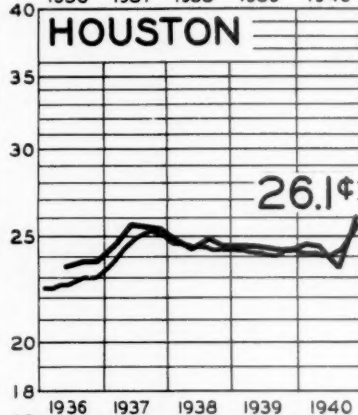
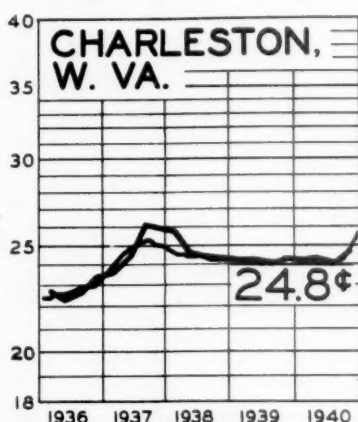
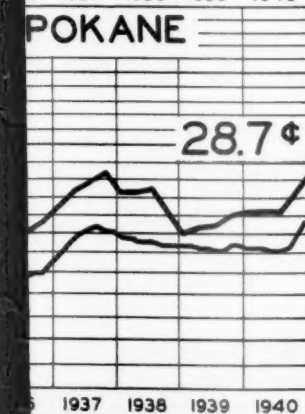
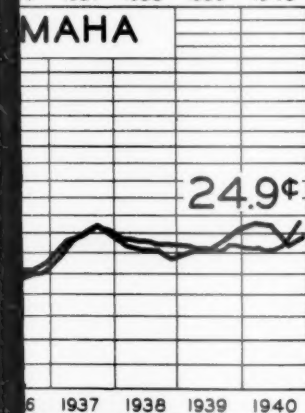
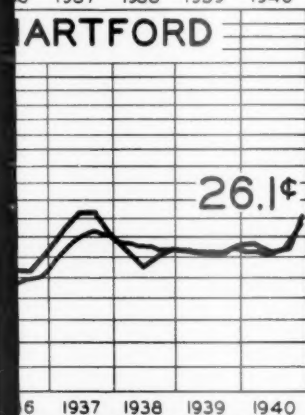
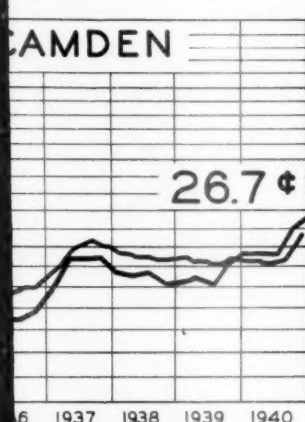
# FLUCTUATIONS IN CONSTRUCTION COSTS

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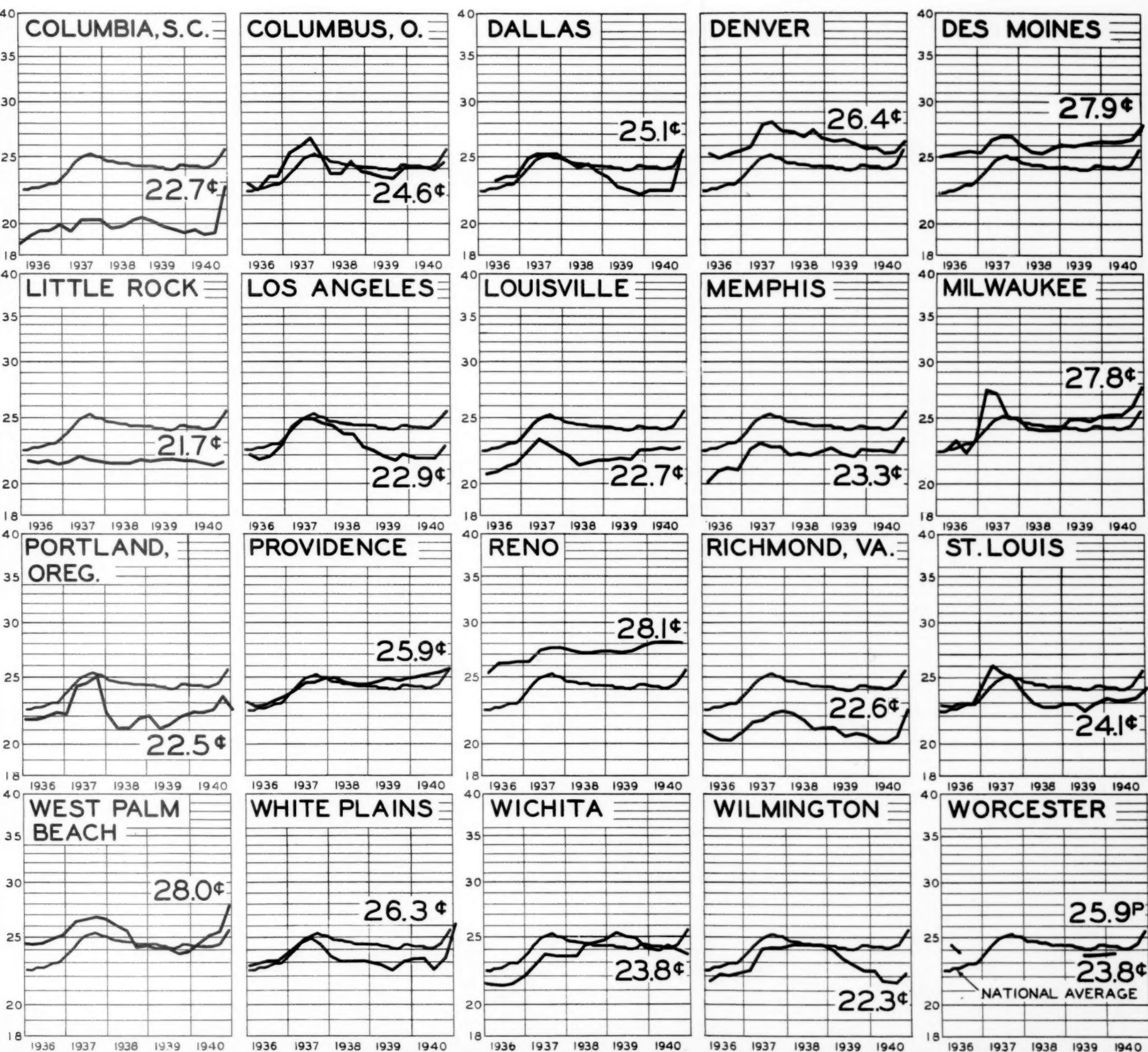


# CONSTRUCTION COSTS PER CUBIC FOOT IN 64 CITIES

1941 REAL ESTATE ANALYSTS, INC. SAINT LOUIS

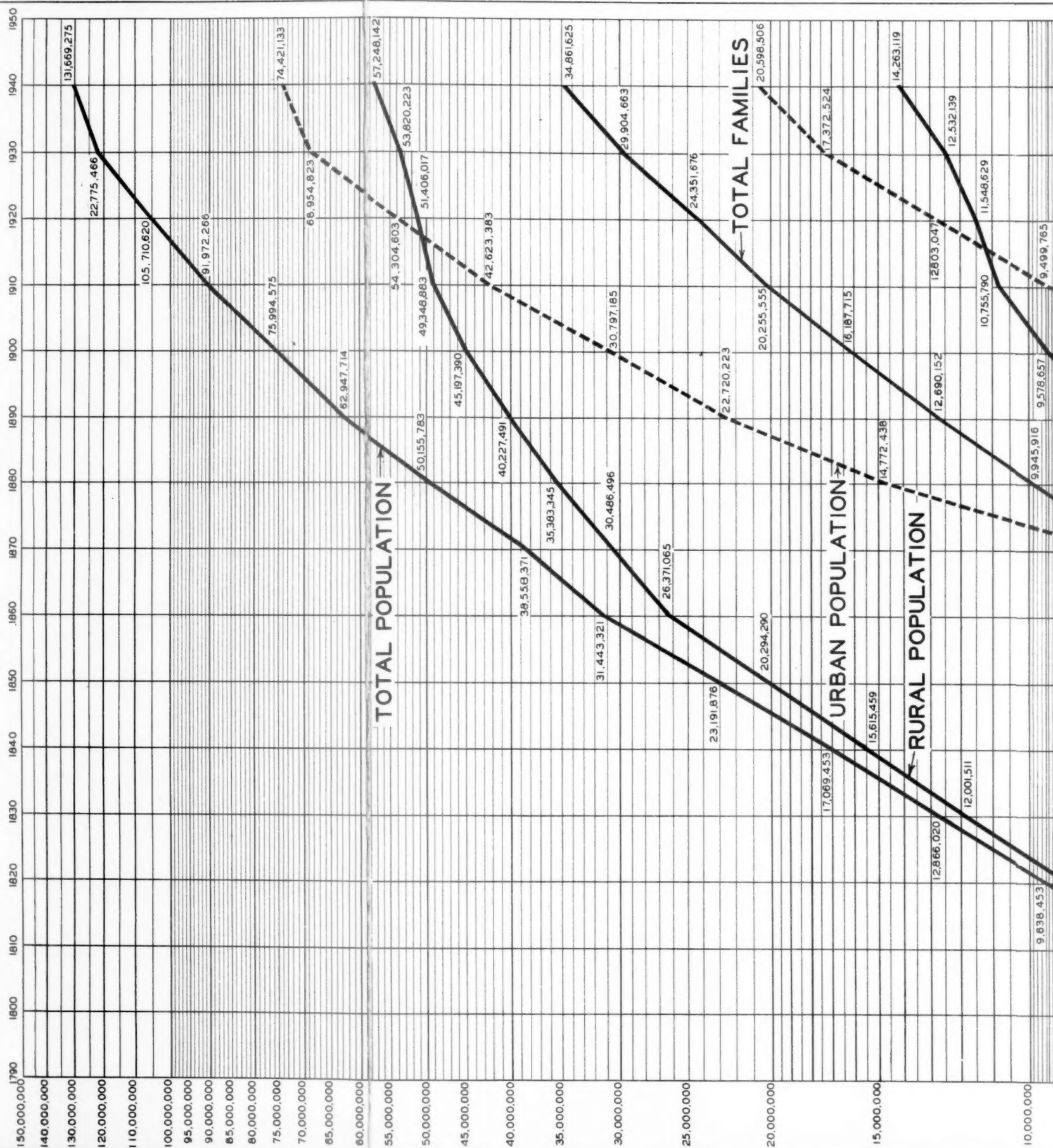


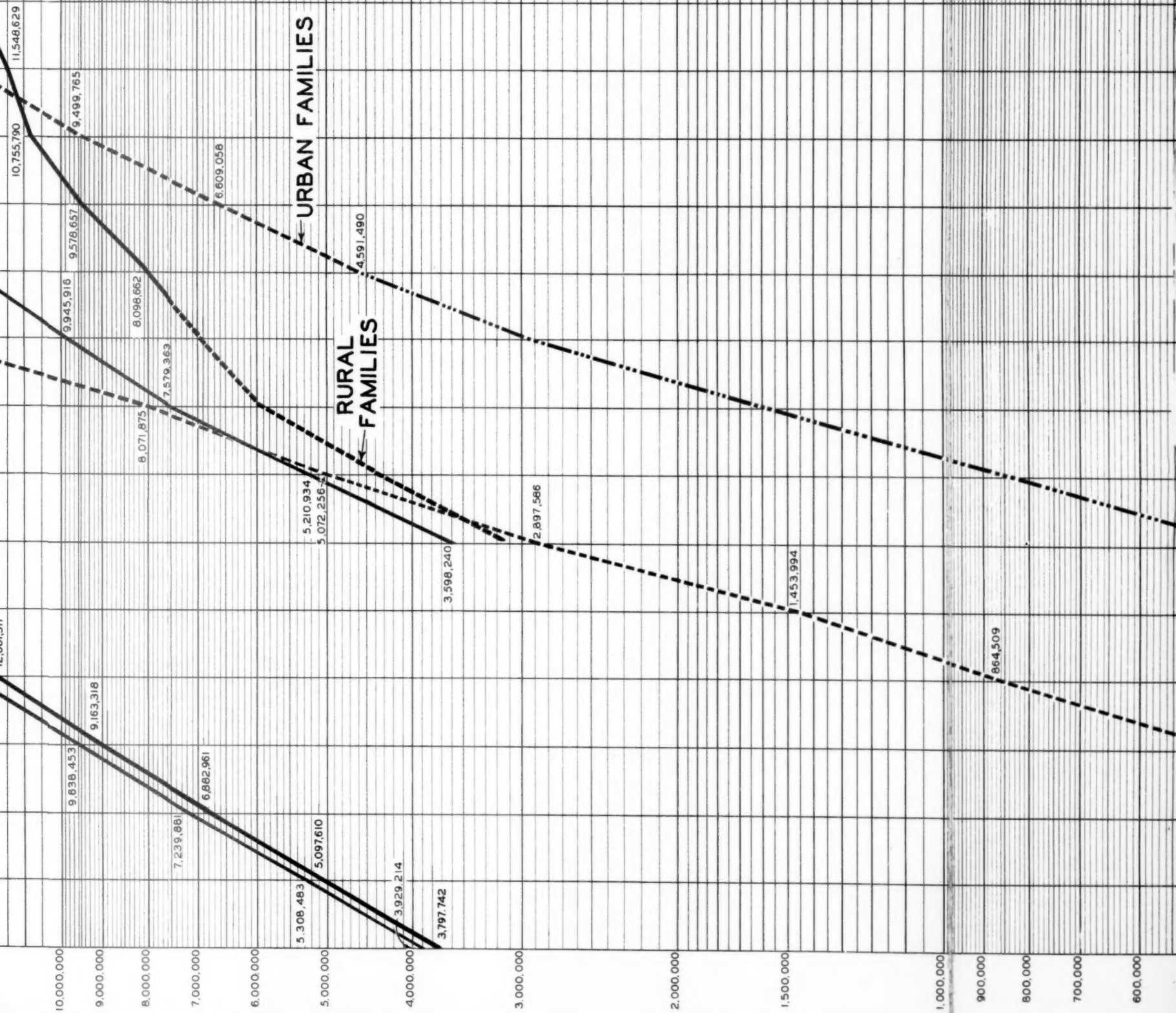
# CITIES

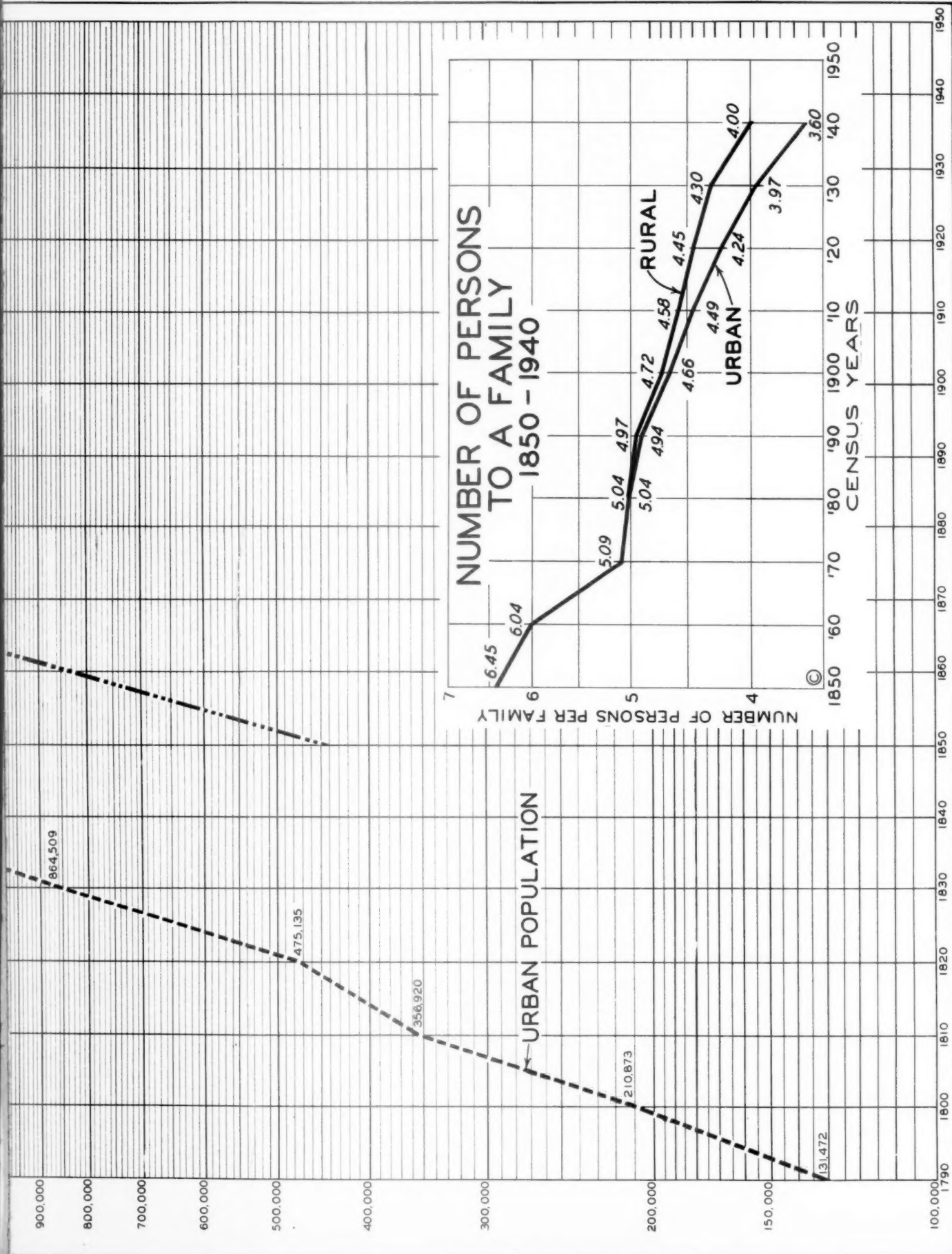


# NUMBER OF PERSONS AND FAMILIES IN THE UNITED STATES 1790-1940

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## THE RATE OF POPULATION GROWTH IN THE U. S.

**W**E have frequently discussed in our reports the effect that the decrease in the rate of population growth will eventually have on real estate values in the United States. In each of these articles, however, we have pointed out that the full effect of this slowing down would not be apparent until some time still in the future. It is not the low birth rate of today that is affecting real estate at the present time, but it is the birth rate of thirty to forty years ago. (Babies are not in the habit of buying homes.) The low birth rate of today will, however, affect very materially the number of potential buyers getting to the age when they would be prospects for homes -- twenty-five to forty years in the future.

In order to get more perspective over the entire problem of the rate of population growth in the United States, the chart to the left shows the results of every census made by the federal government over the entire history of the United States. These census enumerations are provided for in the Constitution itself and have been made at ten year intervals from 1790 to 1940.

The top line on this chart shows the total population each ten years. As this is a ratio chart, had the rate of increase remained constant over the entire period - as it did, by the way, from 1790 to 1860 - this line on our chart would be a straight line and would now show a population of more than 330 million for the United States. It will be noticed, however, that after 1860 this line has shown a tendency to slowly round off, with the probability that by 1960 it will be moving sideways without any upward trend, with a stabilized population in the United States at that time of probably 145 million.

From the viewpoint of real estate, however, our population study becomes more interesting when we separate population figures into rural and urban population. By urban population the Bureau of the Census means all persons living in incorporated places with more than 2500 population. It will be noticed by studying the line on the chart showing urban population that this line has not leveled off as rapidly as the one showing rural population. This is because of the constant movement from the farms to the cities.

The bottom three lines on the chart show the number of families enumerated in each census. No family information was available before the census of 1850. As a result of the fact that the size of the family has been shrinking a thousand people today constitute more families by far than they did in 1850. This has offset to some extent the slowing down in population growth. The bottom line of the chart indicating the number of urban families in our population has not shown the same tendency to level off as have the other lines.

The insert chart in the lower right hand corner of the large chart shows the constant drop in the number of persons in the family from 1850 to the census enumeration of 1940. Prior to 1880 figures were not tabulated separately on urban and rural families. In 1850 the average family in the United States contained 6.45 persons. In 1940 the average city family had shrunk to 3.6 persons and the average rural family to four.

In our opinion the effect of this population picture on real estate will not be clearly apparent until the next major collapse, which we think will come in the later forties and the early fifties.

## DEFENSE BOTTLENECKS ARE DEVELOPING

(Continued from page 45)

controlled. The suggestions of the Federal Reserve Board have been ignored. Congress will welcome some degree of inflation, and inflation generates a demand for more inflation. Prices will rise slowly at first, then faster and faster. We will be surprised if the price level of 1920, the all-time peak in the United States, is not surpassed within the next five years.

We do not mean by the foregoing that price rises during 1941 will be great. We are rather inclined to believe that they will be moderate for most things. Government intimidation will apparently work for a while in retarding the rate of rise. The real test will come in 1942 and 1943.



## RENTS IN DEFENSE CITIES

THE Bureau of Labor Statistics, at the request of the Defense Commission, has been making studies of residential rents in the following defense cities: Akron, Bridgeport, Camden, Charleston, S.C., Corpus Christi, Hartford, Gadsden, Louisville, Newark, Paterson, Rock Island, Moline, Davenport, San Diego, South Bend, and Wichita. Eight of these reports are now in our office, all showing increases in rents during the past thirteen months. On the average, however, the increases have been small so far, generally under 3%.

### THE REAL ESTATE ANALYST INDEX OF RESIDENTIAL RENTS

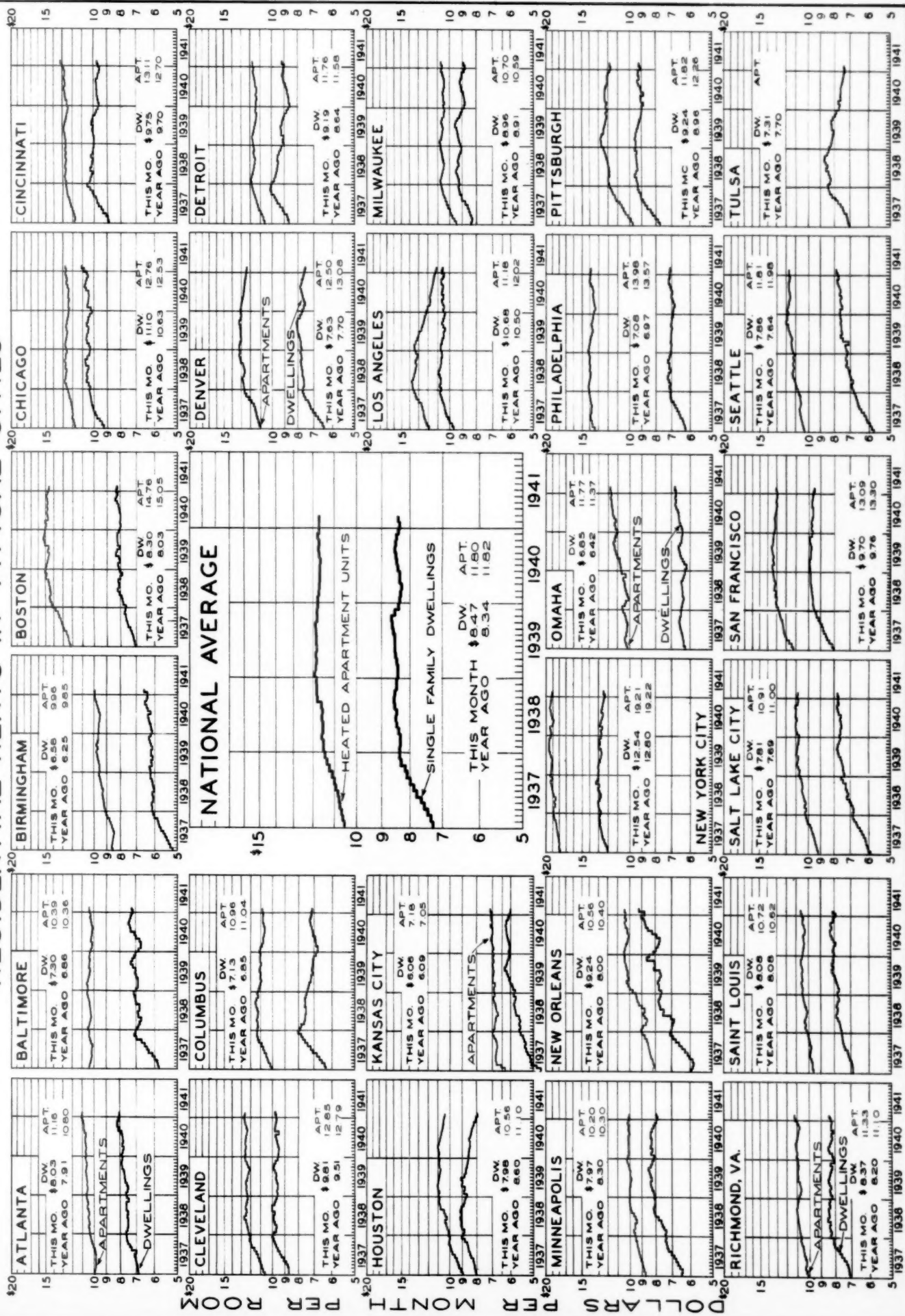
THE table below shows residential rent figures. This is the revised index of residential rents which appeared in the Real Estate Analyst for the first time in the February, 1938, issue. All rents are expressed in dollars per month per room. This makes possible a comparison of rent levels between different

cities, and in the same city between heated and unheated units. The twenty-six cities selected are typical cities scattered from coast to coast. The method of computing this index is described on page 889 in the February, 1938, Real Estate Analyst.

	1940												1941			
	July		Aug.		Sept.		Oct.		Nov.		Dec.		Jan.		Feb.	
	Res.	Apt.	Res.	Apt.	Res.	Apt.	Res.	Apt.	Res.	Apt.	Res.	Apt.	Res.	Apt.	Res.	Apt.
National Index	\$8.47	\$11.75	\$8.48	\$11.79	\$8.53	\$11.82	\$8.52	\$11.81	\$8.50	\$11.83	\$8.45	\$11.80	\$8.44	\$11.80	\$8.47	\$11.80
Atlanta	7.91	10.88	7.99	11.00	8.12	11.02	8.14	11.02	8.14	11.03	8.07	11.15	8.04	11.17	8.03	11.16
Baltimore	7.40	10.29	7.44	10.26	7.50	10.30	7.47	10.32	7.41	10.39	7.30	10.31	7.28	10.33	7.30	10.39
Birmingham	6.25	9.79	6.42	9.81	6.47	9.85	6.52	9.89	6.49	9.93	6.47	9.96	6.47	9.96	6.58	9.96
Boston	8.09	14.90	8.13	14.95	8.24	14.90	8.40	14.91	8.36	14.99	8.32	14.90	8.35	14.79	8.30	14.76
Chicago	10.77	12.50	10.90	12.57	10.86	12.65	10.80	12.61	10.64	12.63	10.78	12.65	10.91	12.61	11.10	12.76
Cincinnati	9.91	12.85	9.93	12.86	9.83	12.92	9.78	12.90	9.70	12.90	9.69	12.93	9.73	13.00	9.75	13.11
Cleveland	9.75	12.70	9.55	12.68	9.86	12.66	9.85	12.75	9.81	12.81	9.75	12.89	9.76	12.97	9.81	12.85
Columbus	7.07	10.85	7.10	10.85	7.19	10.90	7.20	10.92	7.19	10.92	7.14	10.87	7.14	10.88	7.13	10.96
Denver	7.85	12.87	7.91	12.74	7.87	12.71	7.86	12.70	7.76	12.67	7.71	12.60	7.64	12.60	7.63	12.50
Detroit	8.95	11.54	9.02	11.56	9.08	11.65	9.13	11.76	9.10	11.79	9.08	11.75	9.04	11.76	9.19	11.76
Houston	8.49	10.97	8.40	10.87	8.36	10.77	8.28	10.76	8.20	10.70	8.05	10.70	8.04	10.63	7.98	10.56
Kansas City	6.19	7.14	6.20	7.14	6.22	7.19	6.20	7.15	6.16	7.16	6.10	7.15	6.09	7.15	6.06	7.18
Los Angeles	10.69	11.70	10.66	11.62	10.76	11.59	10.76	11.59	10.65	11.50	10.60	11.32	10.70	11.29	10.68	11.18
Milwaukee	9.15	10.59	9.19	10.59	9.15	10.59	9.12	10.60	9.07	10.64	8.96	10.70	8.93	10.66	8.96	10.70
Minneapolis	8.37	10.30	8.37	10.28	8.31	10.30	8.21	10.30	8.09	10.31	7.99	10.25	7.92	10.25	7.97	10.20
New Orleans	8.24	10.30	8.53	10.30	8.78	10.53	8.86	10.56	8.93	10.52	9.02	10.58	8.90	10.52	9.24	10.56
New York	12.59	19.33	12.80	19.53	12.72	19.65	12.69	19.60	12.58	19.54	12.56	19.48	12.53	19.30	12.54	19.21
Omaha	6.69	11.55	6.75	11.60	6.82	11.70	*6.81	*11.70	6.82	11.75	6.81	11.71	6.81	11.72	6.85	11.77
Philadelphia	7.00	13.68	7.08	13.85	7.18	14.05	7.20	14.11	7.20	14.09	7.13	14.08	7.13	14.05	7.08	13.98
Pittsburgh	9.20	12.29	9.31	12.12	9.33	12.11	9.31	12.11	9.32	12.00	9.24	11.75	9.22	11.70	9.24	11.82
Richmond	8.24	11.13	8.25	11.08	8.20	11.03	8.25	10.98	8.25	11.04	8.23	11.16	8.25	11.28	8.37	11.33
Saint Louis	8.24	10.57	8.25	10.51	8.22	10.59	8.23	10.63	8.13	10.63	8.04	10.60	7.99	10.69	8.08	10.72
Salt Lake City	7.60	11.11	7.75	11.08	7.77	11.07	7.84	11.09	7.72	10.99	7.76	10.91	7.75	10.94	7.81	10.91
San Francisco	9.70	13.22	9.70	13.12	9.76	13.05	9.76	13.09	9.75	13.07	9.75	13.00	9.73	13.01	9.70	13.09
Seattle	7.69	11.76	7.64	11.82	7.69	11.90	7.75	11.90	7.80	11.87	7.72	11.81	7.78	11.81	7.86	11.81
Tulsa	7.63		7.59		7.58		7.51		7.48		7.39		7.30		7.31	

\*Preliminary

## RESIDENTIAL RENTS IN TYPICAL CITIES



## CENSUS HOUSING DATA BY BLOCKS

THE federal census of April 1, 1940, asked many questions on housing. Answers to these questions are now being tabulated, block by block, for every city of the United States that had 50,000 or more population in 1930. There are 188 of these cities. The first city on this block by block basis to be tabulated will be Wilmington, Delaware, and it should be available very shortly. The last city to be tabulated will be New York City, and it will probably not be available until some time this fall. The Census Bureau will publish a key map for each city, giving the census block numbers for each city block. They will probably also publish eight interpretive maps analyzing the block figures, which will also be available in tabular form. The map studies that are to be published will be as follows:

1. The average monthly contract or estimated rent. In the 1940 census every rented housing unit was listed in the returns and all owned housing units were given an estimated rent by the enumerator; in this way the owned units were put on a basis comparable to the units actually rented.

2. The age of housing units. In each city block the median age of the buildings will be computed and will be expressed as the median-year-built. The median years will be grouped into five classifications: 1899 or before; 1900 to 1919; 1920 to 1929; 1930 to 1940.

3. Dwellings lacking private bath, private flushing toilet, or running water as a percentage of all dwellings in the block.

4. Dwellings lacking private bath or needing repairs as a percentage of all dwellings.

5. Dwellings occupied by negroes or by other non-whites as a percentage of all occupied dwellings.

6. Dwellings with more than 1 1/2 persons per room as a percentage of all occupied dwellings.

7. Owner-occupied dwellings as a percentage of all occupied dwellings.

8. Owner-occupied dwellings with a mortgage as a percentage of all owner-occupied one- to four-family dwellings.

These maps and block by block tabulations will not go beyond the city limits of any of the cities tabulated. It will be possible, however, to secure special tabulations of the same material by enumeration districts through the suburbs of the larger cities.

It seems to us that this material, both in tabular and map form, will be of tremendous value to lending institutions, as it will be possible - on the basis of these composite studies - to spot the good and bad blocks of every city. Present negro infiltration will be shown and the probable spread can be estimated. High value and low value districts will be shown on the rent maps. Districts in which obsolescence has destroyed value to a point where adequate repairs are no longer made, will be easy to locate. The Real Estate Analyst will keep in touch with these studies and will list from time to time those that have become available.



FEBRUARY 27  
1941

# EXECUTIVE DIGEST

## OF THE CURRENT REAL ESTATE ANALYST REPORTS

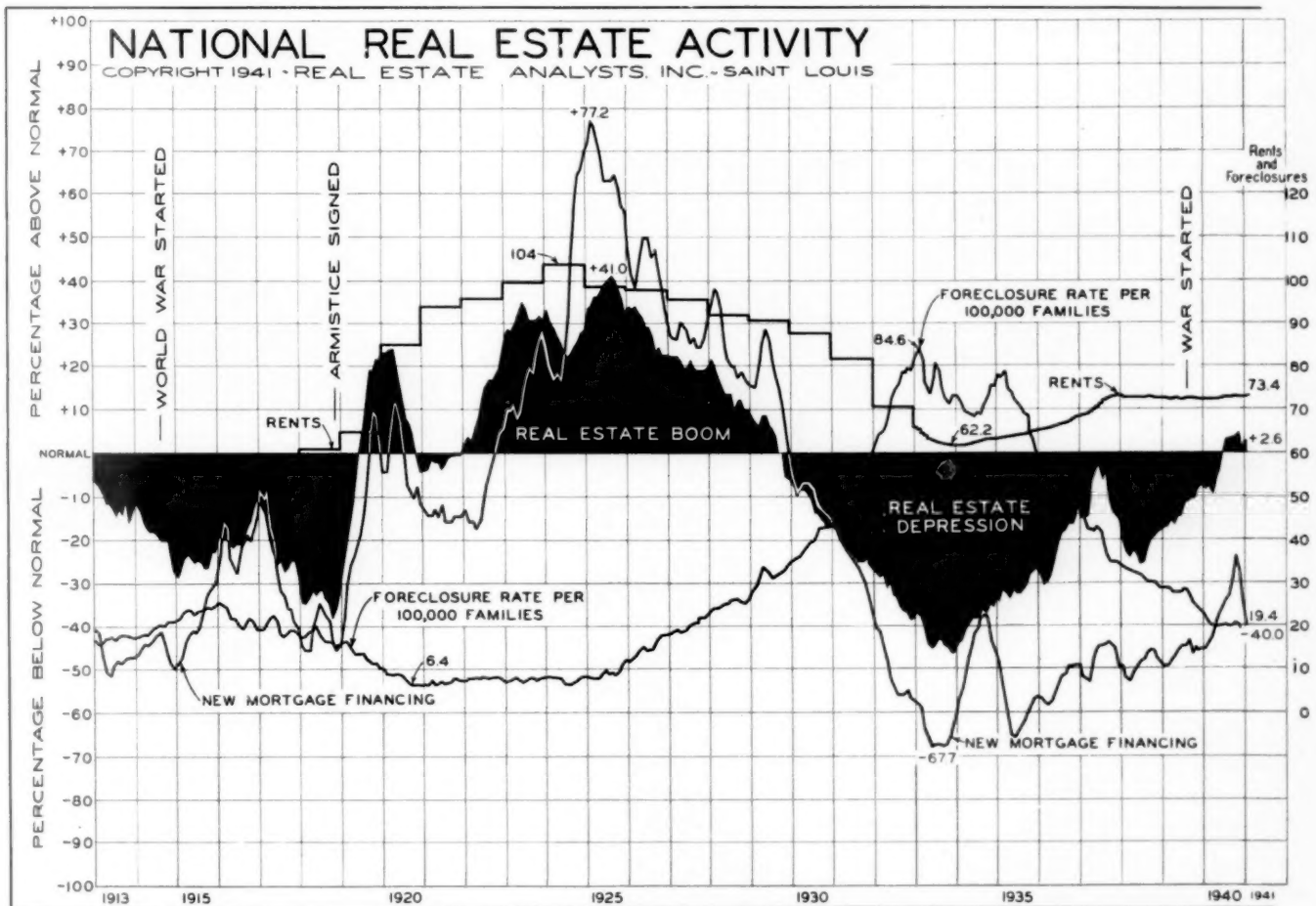
REAL ESTATE ANALYSTS, INC.

*Real Estate Economists, Appraisers and Counselors*

Roy Wenzlick  
Editor

VOLUME X

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THE chart above, which can be used for bringing up to date the long chart published by Real Estate Analysts, Inc., shows that real estate activity increased slightly again in January, averaging for the month 2.6% above our normal line. Real estate activity since June has been slightly above normal each month. On a chart which we published in our reports in December 1936 we showed a rapid upward movement starting the last part of 1941. We still think this looks reasonable at the present time, unless the United States enters the war, which might temporarily depress real estate activity until the initial shock is over.

Foreclosures continued the drop of the last few years, carrying them back to the level at the end of 1926. We think this level will drop still further during the next year. New mortgage financing, as measured by the number of mortgages recorded in principal cities for January (-40) declined from the December figure (-33). It is still considerably ahead of the corresponding period of a year ago.

Residential rents advanced by 0.1 on our index, which we believe marks

the beginning of a renewed upward movement. During the past three years the level of residential rents in the average city has shown very little change. During the last few months, however, the defense activity is bringing a more rapid absorption of vacancy and a higher level of rents. In a few small defense cities acute shortages have developed with very rapid increases in rent level. This is the exception, however, rather than the rule. In most defense cities the increase in rents in the last year has not been more than 3%.

Actual expenditures on defense are now starting to reach astronomical levels. In January more than 560 million dollars was spent for defense, and these figures will continue to increase each month for some time in the future. As a result of defense expenditures factory employment in the United States reached the highest level in twenty-one years. Employment has been gaining rapidly in all non-agricultural lines, approximately 540,000 workers being added to payrolls between November and December. We believe that within a year labor shortages will exist in many divergent lines, limiting the rapidity with which plant capacity can be expanded. Insufficient plant capacity will exist in the United States to take care of defense needs and non-defense needs. Our defense program will be pushed through as rapidly as possible, developing many actual shortages in non-defense items, with - we believe - resulting price increases. We believe that the price level of 1920, the all-time peak in the United States, will be passed within the next five years.

Residential construction costs leveled out during February, with practically no change from the January figures. We rather anticipate a sideways movement during the next few months, followed by a resumption of the rise.

During the past eight months, however, increases have been spotty and far greater in some communities than in others. As a rule, communities in which building costs were relatively low have advanced further since last June than in communities in which costs were average or above. This has resulted in rather heavy increases in most southern cities. On a \$6000 house the increase since last June in some communities has exceeded a thousand dollars; in one or two communities there has been no increase. The average of all cities has been an increase of a little less than \$400.



VOLUME X

MARCH 13  
1941

*As I see it*

## THE GOVERNMENT CAN DELAY BUT CANNOT PREVENT PRICE RISES

**I**T is axiomatic to say that prices rise and fall as demand varies in relationship to supply. The question of predicting future prices becomes more complicated, however, when we begin to study the various factors affecting demand and supply. Can the government control enough of these factors to control the resulting prices? Suppose we start by listing some of the more important ones affecting demand.

1. Probably the most potent factor affecting demand is the change in consumer incomes. Wants increase faster than the ability to satisfy them. If consumer incomes rise, consumer purchases will rise with very little time-lag. Most of us buy at least as much as we can afford. An increase in consumer incomes - everything else being equal - will result in an increased demand for commodities, and if the supply of these commodities is not augmented proportionately, the prices will rise. A decrease in consumer incomes will have the opposite effect.

Consumer incomes are rising rapidly in the United States at the present time as a result of the decreased unemployment, the increase in full time employment and the large amount of overtime work required because of the 40-hour week. In addition, many wage increases have been granted and many more will be added during the next few years. The government will probably succeed later in reducing consumer incomes available for purchases by increased taxation and by so-called forced saving.

In our opinion, however, these developments can come only slowly, as their enactment must await the "education of the masses" through government propaganda. In the meantime, demand will increase rapidly for all types of consumer and durable goods. As an example, department store sales in January of this year exceeded sales in January of a year ago by 15%. This increase in consumer demand is coming at the same time as the demand for both British and American war materials.

2. Demand is also affected by anticipation. This anticipation may take several forms. If it seems probable that certain developments affecting price may occur in the future, the average purchaser will endeavor to anticipate these price changes, either by buying in advance of need on a probable rising market or by delaying purchases on a falling market. Furthermore, during periods of great uncertainty many cautious individuals build up cash reserves, even though it might be to their interest to turn money into commodities.

We think that the net result of this anticipation of the future will probably bring about increased demand during the next few years, as the recognition - on the part of the public - of the probability of price increases will

overcome their reluctance to buy in a period of uncertainty-on the other hand, there can be no doubt of the fact that the government will attempt to restrict speculative buying to a minimum.

Now let us list the more important factors determining supply:

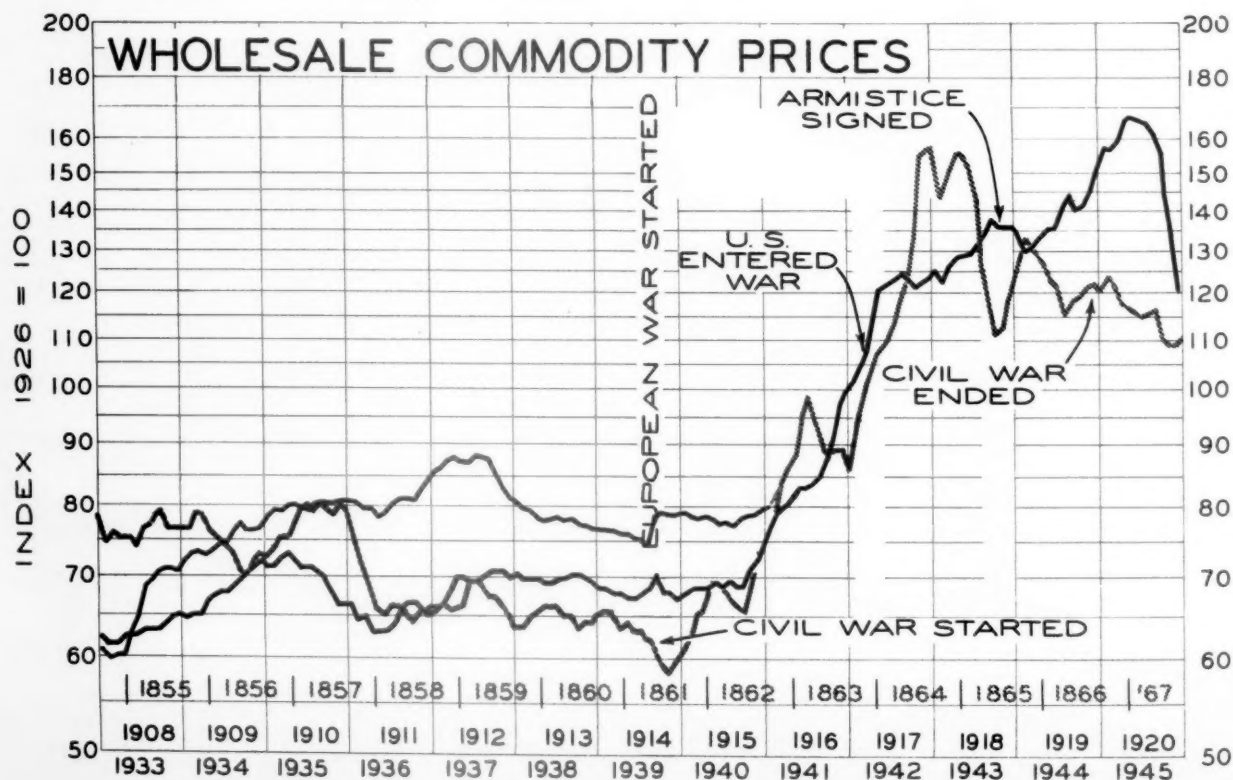
1. In a time like the present the supply of many items is severely restricted by naval blockades and by military diversions from logical markets. Under this grouping we are including all limitations of supply that are the result of priorities, a subject with which we shall become far more familiar in the next few months.

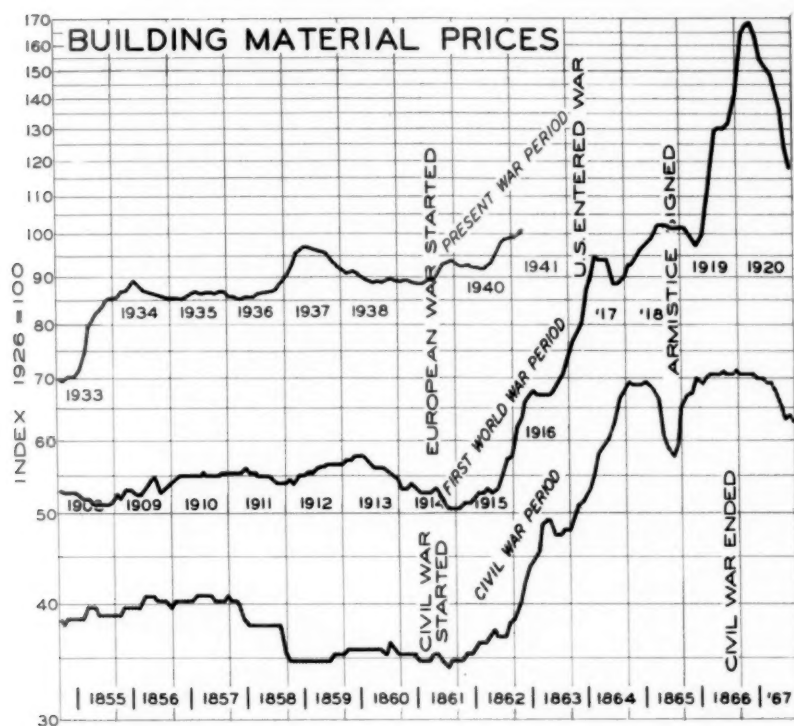
We believe that after the passage of the Lease-Lend Bill we shall find priorities necessary in so many lines that production for peace-time consumption will be decidedly limited. We cannot superimpose the military demands of Britain and of America on top of our regular economy. Much of this demand must replace the demand for ordinary consumer and durable goods.

2. It is self-evident that supply of any commodity at any one time is limited at that time by the existing producing capacity for that commodity. For instance, in spite of the tremendous back-log of orders facing American industry today, actual production is increasing very slowly indeed and will continue to increase slowly during all of this year, as plant capacity cannot be rapidly increased.

In order to prevent price rises it would be necessary to increase tremendously the supply of peace-time commodities. While producing capacity will increase, we doubt whether it can increase by more than 10% or 15% per year. We think that the increased demand for consumer goods alone will equal this percentage, leaving the augmented capacity entirely insufficient to take care of both defense and consumption needs.

3. Supply is further affected by a scarcity or abundance of skilled labor. The rate of supply of many items at any one time may be limited, even though sufficient physical plant capacity exists, by the inability to secure skilled labor for continuous operation. In my opinion, during the next few





years we are going to find the labor situation a greater limitation to our production capacity than we will the physical capacities of our plants.

We think that the government could control the labor market in such a fashion that the scarcity of skilled man hours necessary to produce the required quantity of munitions and commodities could be held to a minimum, but after reviewing the record of the New Deal on labor policies, we have little hope that the administration will reverse itself sufficiently to make this control likely. A 40-hour week will be insufficient for the amount of work necessary to

carry the load of defense and regular business, but in our opinion, we shall continue the 40-hour week.

4. The supply of some natural products is partially determined by favorable or unfavorable natural conditions. For instance, the new supply of wheat in any one year will depend partially on the moisture content of the ground, on the temperature during the growing period and on the presence or absence of blights and pests.

In the field of agriculture, too, we think that prices could be controlled by the government for those items in which surplus now exists in government warehouses. These surpluses could be dumped on the market to prevent price rises; we doubt very much, however, whether the government - for political reasons - would undertake a program to deflate rising farm prices at the time when other non-farm prices were rising. If the prices of the things that the farmer must buy advance tremendously, political pressure will be exerted against any effort on the part of the government to prevent the things that the farmer sells from rising in price.

5. Supply in any one location may be affected by the inability to transport the commodity in question to the most favorable market. In one community this might result in a shortage of wheat, for example, while in another community wheat might exist in quantities more than sufficient to take care of the demand. We would not be at all surprised to find that the transportation facilities in the United States will not be sufficient to take care of the exaggerated load of the next few years.

The three charts in this report are quite interesting, as they show the effect of both the Civil War and the first World War on prices in comparison with the reactions we are getting at the present time. The similarity of the Civil War and the first World War curves is quite striking, in spite of the interval of time that separated them, the changes during that interval in producing capacity and in production methods, and the great change in the standards of living among the workers.

We will readily admit that many of the effects of the present war are unpredictable, but clearly, the factors listed above affecting supply and de-